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175 Water Street
New York, NY 10038
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ADMIN & FINANCE
BUDGET & FINANCE

March 25, 2003

Mr. Mark Fukuhara
Administrator
Hawaii Employer-Union Health Benefits Trust Fund
c/o Department of Budget & Finance
PO Box 150
Honolulu, HI 96810

**Re: Insured/Defendant: Hawaii Employer –
Union Health Benefits Trust Fund**
Plaintiff: George Yamamoto
Claim Number: 295-035554
Policy Number: POL 521-35-75

Dear Mr. Fukuhara:

American International Group Technical Services, Inc. ("AIGTS"), on behalf of National Union Fire Insurance Company of Pittsburgh, PA® (the "Company"), hereby acknowledges receipt of the complaint filed in the above-referenced lawsuit.

A file has been established under the Insured's Public Officials and Employment Practices Liability Policy issued by the Company for the period December 1, 2002 to December 1, 2003. This policy provides for limits of liability, including claim expenses, of \$2,000,000 in the aggregate. There is a **\$10,000 deductible** applicable to this claim, which applies to both indemnity and defense costs.

The purpose of this letter is to advise you of the following:

- (1) We have assigned defense counsel to represent you in this lawsuit;
- (2) We recommend that you place other insurance carrier(s) on notice of this claim. If you have already done so, please provide us with their response to your notice. (Note that coverage provided for you under this policy shall be excess over other valid and collectible insurance.); and
- (3) Certain policy provisions may impact the coverage of this matter.

Please be advised that we have assigned Lisa Ginoza, Esq. of McCorriston, Miller, Mukai, MacKinnon, LLP to represent your interests in this lawsuit. Ms. Ginoza's contact information is as follows:

Lisa Ginoza, Esq.
McCorriston, Miller, Mukai, MacKinnon, LLP
500 Ala Moana Boulevard
Honolulu, HI 96813-2800

Telephone: (808) 529-7300

Fax: (808) 535-8026

According to the information received by this office, this is a lawsuit arising out of alleged breach of fiduciary duties. The Insured is a health trust fund established pursuant to Hawaii state law to provide eligible state and county employees, retirees, and their dependents, with health and other benefit plans. The fund is governed by a Board of Trustees (the Insured is on this Board and is also the state's Director of Finance). Plaintiff alleges that the Insured made a presentation to the Democratic Caucuses of the Hawaii State House of Representatives and the State of Hawaii without notifying, consulting with or obtaining approval from the Board. The presentation set for explicit and detailed benefit packages for fund beneficiaries, but Plaintiff asserts that such packages were not approved by the Board and, thus, exceeded the Insured's authority.

Plaintiff requests a declaratory judgment that Insured is deemed to have resigned his position as Director of Finance by operation of law when was appointed to and accepted the position as trustee of the Board. If so deemed, Insured continued to receive salary, benefits, etc., which Plaintiff alleges should be reimbursement to the state. Similar declaratory judgment is requested regarding his position as Division Chief of Budget & Finance. Plaintiff demands attorney fees, as well.

Please direct your attention to the **Exclusions** section of Insured's policy, which states:

This policy does not apply to any Damages or Claim:

- (h) Arising Out Of the gaining in fact of any profit or advantage to which the Insured is not legally entitled; the return of taxes, assessments, penalties fines or fees; any award of salary, wages or earnings.

Endorsement #2 modifies the **Exclusions** section of Insured's policy and states:

This policy does not apply to any Damages or Claim

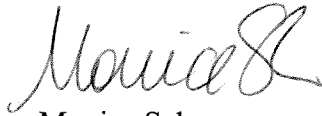
- (cc) Arising Out Of a breach of fiduciary duty, responsibility or obligation in connection with any employee benefit or pension plan, or to any amount due under any fringe benefit or retirement program.

Our comments are based upon the facts received to date. To the extent that discovery or additional information indicates that other policy provisions apply, the Company hereby **reserves its right** to amend its coverage assessment at that time. The Company's investigation of the circumstances giving rise to the above-referenced matter should not be construed as a waiver of any rights that the Company may have under the Insured's policy of insurance and is subject to the terms and conditions of said policy.

If you have any questions concerning this case, please contact me via e-mail at monica.schroer@AIG.com or call me at (212) 458-1385. You may fax any new and relevant documentation to me at (866) 881-0444. In the alternative, you may contact my director, Ms. Ivy Lewis, at (212) 458-1648.

I look forward to working with you.

Sincerely,

A handwritten signature in cursive script, appearing to read "Monica Schroer".

Monica Schroer
Claims Analyst

cc: Ms. Debbie Park
Marsh USA Inc.
PO Box 4238
Honolulu, HI 96812